EIR National

A Democratic split would not help the White House

by Richard Cohen

In August 1971, President Richard Nixon, under extraordinary pressure from financial "market forces" in New York and London, enacted a now-infamous economic policy. Presented with an "emergency"—although inflation was only at 5 percent and currency instability could have been countered—Nixon took the U.S. dollar off the gold standard and simultaneously launched a program of Fabian-promoted wage/price controls. The public figures responsible for designing that bit of national sabotage were the quondam chairman of the House Banking Committee, Henry Reuss, and Treasury Undersecretary Paul A. Volcker. The two had convinced Treasury chief John Connally to adopt the plan, and Nixon capitulated. That decision effectively legislated the rapid decline of the American economy.

On May 27, 1981 approximately a decade after Nixon bought that prescription for economic calamity, a secret meeting was held in a House of Representatives office. Present were Paul Volcker and Fernand St. Germain, the Rhode Island Democrat who has replaced Reuss as chairman of the House Banking Committee. The Federal Reserve chairman was meeting with St. Germain, a well-trained Reuss understudy, to put the final touches on Volcker-authored legislation that would have mandated the federal government to underwrite and facilitate the takeover of devastated savings and loan institutions by New York and London-dominated financial institutions. Such a coup, all interested observers agree, would have consolidated the Federal Reserve's drive to break the back of independent American commerce and industry, and make the nation reliant on the Euromarket banks for its credit.

Two days after this Volcker-St. Germain meeting, President Reagan held a special economic cabinet meeting at which—unlike Nixon, and over the objection of Treasury and other officials—the chief executive rejected the Volcker-St. Germain plan (see Economics). Several hours later, St. Germain was obliged to announce that during this congressional session, he would drop his push for the legislation. Within a few days, the Wall Street pundits who had greeted Reagan's House budget resolution victory with what White House officials privately refer to as a "knife in the back" by jacking up interest rates, were uniformly predicting that rates would soon fall. On May 31, Treasury Secretary Donald Regan, who two weeks earlier had predicted another full year of ultra-high interest rates, told a national television audience that rates would soon come down.

Wall Street's interim conciliatory posture also reflected the President's unprecedentedly blunt charge on May 28 that the financial markets were protecting their own narrow interests, and "are not a good source of economic advice. In Wall Street, I think they're looking through a very narrow glass and see only one facet."

Within 24 hours, the President had made a series of moves: he publicly stated that he mistrusts lower Manhattan's advice; he charged that New York bankers were not acting in the national interest; and most important, in a benchmark test between those interests operating through Volcker and those attuned to the President's national base in independent business, Reagan came down on the side of his own base.

Washington is already taking note of the level of heat coming out of this initial encounter between the White House and New York financial interests. It seems that Secretary of Energy James Edwards was not speaking for himself alone when he told a hometown South Carolina audience late last month that "the liberal media" had almost destroyed the nation during the 1970s, and that the Reagan administration would launch a "counterrevolution" against the ills inflicted by the *Washington Post* and the *New York Times.* Edwards indicated that the President shares his views.

Three days later, the International Brotherhood of Teamsters—the only major national union to have supported Reagan's presidential candidacy—opened its annual convention with a parallel blast against the national news media. These early shots could signal a serious confrontation between the administration and the financial interests.

Who will back the President?

There is no way the White House can survive such a confrontation unless Reagan moves outside the confines of his official economic program. Recent *Washington Post* editorials have strongly endorsed the efforts of House Speaker Tip O'Neill to mount a war against the administration's social program budget cuts (not because many of the cuts are foolish, which they are, but because he is out to destabilize the Oval Office). On the tax question, the *Post*'s sister *New York Times* has reprimanded Reagan in the strongest terms for attacking Wall Street, which only represents the collective wisdom of the "free market," the *Times* proclaimed June 2; Reagan's program is inflationary, therefore high interest rates will persist in response.

The combination of continued record rates and Socialist International-inspired demonstrations against the budget cuts this summer could deliver the kind of double whammy the administration still seems unprepared for. White House sources report administration hesitance to consider direct moves against Volcker at this point; they are afraid of jeopardizing their efforts to pass their economic program in Congress. By the same token, administration officials still contend that their economic package will eventually bring down interest rates by lowering inflation.

Over the next month and a half, if there is no administration move against Volcker and high interest rates, observers believe the Second International's plan to "Hooverize" Reagan will move into high gear.

The only form of compromise between the administration and the congressional Democrats that could counter this plan would have to include a commitment to take on Volcker and his credit policy. During the maneuvers around a watered-down version of Reagan's three-year tax proposal, House Majority Leader Jim Wright, a Texas Democrat, and other moderate Democrats were looking for "a good reason" to go along with the tax package. The "good reason" Wright outlined both in his May 24 national television statement and at the June 1 White House tax meeting. On both occasions Wright attempted to link moderate Democratic support for tax compromise with an administration commitment to directly counter the Fed.

A missed opportunity

In fact, sources close to the White House report that the opportunity for such a deal was cut off a week before the climatic White House-congressional meeting. According to these sources, White House political operatives have been in touch with Wright for some time on the possibility of a tax compromise. These Reagan intimates thought they had obtained Wright's commitment to a forceful public endorsement of the 5-10 tax-cut plan later surfaced by Senate Finance Committee Chairman Robert Dole (R-Kans.) and House Ways and Means Chairman Dan Rostenkowski (D-Ill.). According to White House aides, Wright fell far short of expectations. He simply offered to compromise with the administration on tax policy if the administration in turn would address the interest-rate problem head on.

The full scope of the missed opportunity was revealed by Wright following the June 1 White House meeting. In response to a reporter's question as to whether the matter of high interest rates was discussed with the President, Wright reported, "Treasury Secretary Regan told us that a 5 percent decline in the interest rate would save the federal budget $50 billion a year"; but Wright indicated that the administration offered nothing new in dealing with the problem.

The failure of moderate Democrats and the administration to come to terms on a tax compromise that includes a bipartisan battle clause against high interest rates opened the door for Tip O'Neill. In a May 29 speech before the Houston Conservative Democratic Forum, Sen. Russell Long of Louisiana, ranking Democrat on the Senate Finance Committee, charged that "the average person doesn't control the Fed, and the President doesn't want to oppose them right now." Long warned that failure to hold its moderates and conservatives would turn the party into "a British Labour Party." The Democrats, he said, should work with Reagan the way Senate Majority Leader Lyndon Johnson worked with the Eisenhower administration—and reaped Democratic electoral gains on the Hill.

Last-minute attempts by Wright and Rostenkowski to buy time by forcing Ways and Means Committee Democrats to accept a two-year 5-10 tax cut were finally rejected by the administration late this week. White House sources report that Reagan and his political intimates decided that they had enough conservative votes among Democrats to get their three-year proposal passed on the House floor. In addition, these sources say administration strategists believe a second-round defeat for the House Democratic leadership paralleling the previous House budget resolution vote would "cut the sails" from O'Neill's crusade against budget cuts by firmly demonstrating that a bloc of all Republicans plus House conservative Democrats could override any committee setback for the administration.

Tip O'Neill has meanwhile launched "guerrilla warfare" over the budget that could succeed in paralyzing or even splitting the Democratic Party. Tip has already announced that the House Labor and Education Committee, chaired by Carl Perkins (D-Ky.), will be the central vehicle of counterattack. Proposed cuts in the school lunch program and tuition aid are said to be prime O'Neill targets for a fight. In all, the Perkins committee must cut $10 billion from its budget, and committee sources already report that members are still unable to set a date to start deciding where to cut. The administration has already obtained the agreement of House Budget Committee Chairman Jim Jones, an Oklahoma moderate close to Jim Wright, to use his committee's legal authority to decide which programs to cut in those committees that either fail to complete their funding authorizations or exceed their alloted funding target. Many observers here in Washington now believe that O'Neill may attempt in the name of party discipline to force Jones to use his powers on behalf of O'Neill's strategy for chaos.

It is well known that moderate and conservative House Democrats considered O'Neill's behavior during the tax negotiations "obstructionist." One source commented, "If O'Neill wanted the world to know he had basic differences with Wright, Rostenkowski, and the Conservative Forum people, he couldn't have made it more clear." An O'Neill move to force these elements into open support for Reagan's budget cuts, which would happen by the beginning of July, may well fissure the party. This is the ironic upshot of the O'Neill push for "party unity" around the Democratic version of a tax bill, as well as raising hell on the budget side.

Capitol Hill watchers agree that O'Neill and his base of 100 liberal Democratic congressmen cannot seriously damage the administration on the Hill. But O'Neill's operation to polarize the moderates, combined with an already planned series of Socialist International-instigated anti-Reagan demonstrations, *can* seriously damage the administration nationwide if the economy falters further. Parliamentary deals and tricks such as the failed tax compromise between moderate Democrats and the administration have always fallen short when crucial economic decisions have to be made.

O'Neill will probably enjoy public demonstrations by midsummer. What the President and his potential allies need are visible demonstrations by organized labor and independent business by that same time—against Volcker and high interest rates.

Challenges to Volcker

What one Democratic leader has called a "high density of anti-Volcker activity" by labor unions, state legislators, lobbying organizations of businessmen, farmers and others, has developed nationally, looking toward a June 22 demonstration against high interest rates in Washington that is expected to draw more than 1,000 for a lobbying effort.

Organized labor in the state of Illinois, led by the Building Trades, staged a massive rally in the capital of Springfield June 2, immediately directed against antilabor legislation pending in the state assembly. But speech after speech to the 20,000 workmen, many of them from the building trades, attacked Paul Volcker and high interest rates.

In other states, at least eight state legislatures are known to have passed anti-Volcker resolutions, calling for lower rates, and in some cases, the Federal Reserve chairman's ouster. One such resolution, AJR-5, demanding Volcker's removal from office, is now pending in the California legislature, and is expected to be moved to the floor for a vote by next week. Heavy lobbying efforts by the National Democratic Policy Committee, the National Farmers Organization, the National Coalition to Reduce Interest Rates (sponsor of the June 22 effort in Washington), and other groups are being conducted on AJR-5's behalf.

On Capitol Hill itself, Sen. John Melcher (D-Mont.) announced June 1 that he will be holding "public forum hearings" to document the effects of Volcker's policies, providing backup for legislation to curb the Federal Reserve's powers. "High interest rates are killing the economy. They are costing jobs at a time when everything else we are doing is aimed at creating jobs in the private sector," stated Melcher. "I can't understand the President's indifference. . . . High interest rates may be acceptable to Wall Street, but they are not acceptable to me and I don't think that they are acceptable to small business persons and unemployed workers who are really hurting because of them."